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COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, FEBRUARY 22, 2001

APPLICATION OF

VIRGINIA ELECTRIC AND POWER COMPANY

CASE NO. PUE000584

For approval of a Functional Separation Plan under the Virginia Electric Utility Restructuring Act

ORDER FOR NOTICE AND HEARING

On November 1, 2000, Virginia Electric and Power Company ("Virginia Power" or the "Company") filed with the Virginia State Corporation Commission ("the Commission") an application pursuant to Virginia Code § 56-590 B of the Virginia Electric Utility Restructuring Act ("Restructuring Act" or "the Act"). The application seeks approval of a plan for the functional separation of the Company's generation, transmission, and distribution functions (the "Plan"). On December 12, 2000, the Company supplemented its application by filing its functionally unbundled cost of service study and tariffs as part of what it characterized as its "Phase II" filing.

Under the Plan, the Company proposes to structurally separate its operations by transferring $6.7 billion in generation assets[1] to Dominion Generation Corporation ("Dominion Generation"), an entity the Company has created, or will create. Dominion Generation would be engaged in the sale of

[1] This is the approximate value calculated by Virginia Power as of December 31, 1999, based on the Company's proposed methodology. The actual amount transferred will be based on book values at the date of transfer and the allocation methodologies approved by the Commission. The Company's generation asset values are detailed in the Plan's Appendix C.

electricity within the wholesale market, and its sale of electric power in that market would, therefore, be regulated exclusively by the Federal Energy Regulatory Commission ("FERC") and not by the Commission.[2] The Company further proposes to distribute the stock of Dominion Generation to Virginia Power's parent company, Dominion Resources, Inc., in a tax-free spin-off. The Company also proposes to transfer to Dominion Generation the Company's rights and obligations under its non-utility generation contracts, together with other rights and obligations related to its generation operations. Virginia Power would, under the Plan, retain its transmission and distribution assets and operations, doing such business under the name "Dominion Virginia Power." This proposal, described in pp. 6-11 of the Plan, requires approval by the Commission pursuant to the Restructuring Act and also under the provisions of the Affiliates Act[3] and the Utility Transfer Act.[4]

According to the application, Virginia Power currently has outstanding approximately $3.8 billion in long-term debt. The Company states that essentially all of its assets are subject to liens of its mortgage bond indenture; the Company has covenant obligations in that indenture and other of its financings. The Company proposes, however, that following the transfer of Virginia Power's generation assets to Dominion Generation, Virginia Power's existing debt would nevertheless remain the obligation of Virginia Electric and Power Company, albeit operating under the trade name, Dominion Virginia Power. The Company proposes to reallocate payment responsibility for this debt between Dominion Virginia Power and Dominion Generation. In order to reallocate debt and to transfer the generation

[2] Under § 201 (b) of the Federal Power Act (16 USC § 824), the Federal Energy Regulatory Commission ("FERC") has exclusive jurisdiction over the sale of electric power in the wholesale market.

[3] Chapter 4 (§ 56-76 et seq.) of Title 56 of the Code of Virginia.

[4] Chapter 5 (§ 56-88 et seq.) of Title 56 of the Code of Virginia.

business out of Virginia Power, the Company states that it will undertake debt restructuring actions, which may include market-based purchases of debt obligations, defeasance, alternative security, and trustee or bondholder consents.[5]

According to the Company's Plan, Dominion Virginia Power will be part of the Dominion's delivery business, which includes electric transmission operations, customer service and metering, and gas and electric distribution operations in Virginia, North Carolina, Ohio, Pennsylvania, and West Virginia. Moreover, the Company proposes that Dominion Virginia Power would be deemed the

[5] According to the Company, the debt payment allocations will be performed with the assistance of outside investment bankers with the objectives that: (i) Dominion Resources maintain its current BBB+/Baa1 credit rating, (ii) Virginia Electric and Power Company doing business as "Dominion Virginia Power" maintain credit ratings as strong or stronger than the current A-/A3 senior unsecured rating it currently enjoys doing business as Virginia Power, and (iii) Dominion Generation achieve an investment grade credit rating. According to the Company, credit ratings will depend not only on the degree of financial leverage of the various entities, but also on measures of cash flow coverage. The extent of the debt realignment will therefore be significantly affected by the level of unbundled rates received by each of the entities, as well as the operational expenses of each. For these reasons, the Company states in its filings that it is currently not possible to predict the level of debt at each of the entities, nor the precise form that the debt will take. Thus, the Company asserts, until such time as the Commission has approved the Plan, much of the financial restructuring will remain indeterminable, except in broad general terms.

After determination of the unbundled rates in this case, and before any restructuring activity, the Company states that it will engage outside parties to undertake an analysis of the revenues associated with the unbundled rates, and the operational expenses of the entities, for the purpose of credit rating agency analysis and review. To the extent necessary, and insofar as practicable, the Company states that it will adjust the capital structures of the entities so as to achieve its ratings targets.

With respect to the obligations of the Company other than taxable debt, such as tax-exempt financing and preferred stock, the Company has stated in this filing its plan to effect the transfer of these, or replacement obligations, to Dominion Generation, either by assumption or issuance of refunding obligations as part of the overall reallocation of debt obligations. The proceeds from any new issuances would be used to rebalance debt loads by paying down obligations of Dominion Virginia Power, including any required call premiums.

The Company states that if it is unable to proceed with its proposed restructuring plan as detailed in its application, it may propose an alternate approach: transferring the transmission and distribution assets out of Virginia Power, rather than the generation assets. In that case, which would involve a revision of the Plan (including, according to the Company, shifting "incumbent electric utility status" under the Restructuring Act to a new entity created to hold the transmission and distribution businesses), a subsequent exchange offering would be made with the goal of achieving ratings objectives similar to those outlined above.

"incumbent electric utility" under the Act, with all of the attendant responsibilities associated with that designation.[6]

The Company's Plan further proposes that following its functional separation, Dominion Virginia Power will collect nuclear decommissioning funding costs (pursuant to the Company's Nuclear Decommissioning Funding Plan)[7] and wires charges[8] from retail customers on behalf of Dominion Generation. Dominion Virginia Power (if designated the "incumbent electric utility" under the Act) would also be responsible for providing retail customers with capped rate service until July 1, 2007;[9] it also will provide default service under the Act, if it is designated a default service provider pursuant to § 56-585. The Company's proposed Plan provides further that Dominion Generation will supply Dominion Virginia Power with electric power during and after the capped rate period pursuant to a power purchase agreement ("PPA") between Dominion Virginia Power and Dominion Generation. Upon expiration of the capped rate period, the Company proposes that any power purchases by Dominion Virginia Power from Dominion Generation under the PPA for the Company's default service

[6] As discussed below, as the incumbent electric utility under the Restructuring Act, Dominion Virginia Power would be solely responsible for the former, vertically integrated utility's (Virginia Power) current statutory obligation to provide capped rate service under § 56-582 and default service under § 56-585 for those customers who cannot or who choose not to shop for competitive generation suppliers.

[7] The proposal for Virginia Power to collect decommissioning funds from its ratepayers is discussed on pp. 20-22 of the Plan; the proposed Agent Agreement between Dominion Virginia Power and Dominion Generation is contained in the Plan's Appendix D. Virginia Power's Virginia jurisdictional ratepayers collectively pay $29 million annually toward the Company's nuclear decommissioning trust fund as set forth in the Company's Phase II filing in this proceeding, Volume 1 of 4, Appendix A, Schedule 4, page 1.

[8] The Company's proposed accounting for the wires charges collected from ratepayers is discussed on pp. 22-23 of the Plan.

[9] Capped rate service can be terminated on and after July 1, 2004, in an incumbent electric utility's service territory if the Commission, upon application of an incumbent, terminates such service pursuant to § 56-582 C of the Act. As a prerequisite to such early termination, however, the Commission must find that an "effectively competitive market" exists in that service territory.

customers will be at "prevailing market prices."[10] According to the Company, the PPA, as described above, will ensure the availability of generation assets or their equivalent for services to Dominion Virginia Power's retail customers.[11]

It should be noted, however, that the proposed PPA's pricing provision for default service at "prevailing market prices" after July 1, 2007, is not consistent with the provisions of Senate Bill 1420 ("SB 1420") passed by the 2001 Session of the Virginia General Assembly and currently awaiting action by the Governor. SB 1420 amends § 56-585 of the Restructuring Act, requiring that default service provided by incumbent electric utilities after July 1, 2007, be priced with reference to competitive regional electricity markets.[12] Consequently, the Company's Plan must be amended to reflect the changes this legislation makes to the Restructuring Act—including those that change the pricing of generation default service provided by incumbent utilities on and after July 1, 2007. Accordingly, we hereby direct the Company to supplement its application, by May 1, 2001, to conform the provisions thereof concerning the pricing of default service to the requirements of the new law.[13]

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[10] Specifically, the Company states that ". . . Dominion Generation will be compensated at rates consistent with prevailing market prices for service provided to Dominion Virginia Power necessary for it to meet any assigned default service role for customers who still need a transitional safety net. Dominion Virginia Power's rates for default service would be subject to Commission review to ensure they are fairly compensatory and reflect prudently procured energy costs." Plan, pp. 33-34.

[11] The proposed PPA is described in the Plan on pp. 28-36; the proposed PPA is included in the Plan's Appendix E.

[12] SB 1420's revisions to § 56-585 further provide that in the event the Commission is unable to identify competitive regional electricity markets where competition is an effective regulator of rates, then the Commission is required to establish default service generation rates by "setting rates that would approximate those likely to be produced in a competitive regional electricity market."

[13] The Commission recognizes that the provisions of SB 1420 will not become effective until July 1, 2001. However, given the short period of time in which the Company's functional separation plan must be considered, it will be crucial to the Company, this Commission and all interested parties to have available for full review and consideration as early as possible, the Company's plans for default service generation procurement on and after July 1, 2007, that conform to the requirements of SB 1420.

For use on and after January 1, 2002, Virginia Power's functional separation Plan proposes an index-based fuel cost recovery mechanism that forecasts generation by fuel types and uses projected fuel price indices. The new fuel factor proposal provides for a true-up, or reconciliation of forecasted fuel prices with historical prices. Any under-recovery or over-recovery balance would be carried forward to the next fuel period. This process would continue until the fuel factor terminates at the end of capped rate service.[14]

As required by the Commission's functional separation rules, the Company proposes in its Plan to unbundle its rates to reflect the separation and deregulation of its generation business. The Company's proposed unbundled tariffs, rates, and terms and conditions of service are included in its December 12, 2000, filing. The unbundled rates are based on a functionally unbundled cost of service study for the twelve-month period ending December 31, 1999. Significantly, Virginia Power proposes a "minimum stay" period of twelve consecutive months for those of its customers who return to the Company for capped rate generation service following such customers' switching to competitive suppliers.[15] According to the Company, while its customers do have a statutory right of return under the Restructuring Act,[16] a minimum stay period is necessary to prevent inappropriate supplier "gaming" of the market.

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[14] The proposed fuel cost recovery mechanism is described on pp. 23-28 of the Plan. A supplemental filing concerning the Company's proposed fuel factor methodology was filed with the Commission on November 29, 2000. Fuel factor recoveries include the cost of assessments made by the federal government for (i) permanent disposal of spent fuel and, (ii) the decommissioning and decontamination of government owned nuclear facilities. The Company advised in its 2000 Fuel Factor proceeding (Case No. PUE000585), that for calendar year 1999, the Company expensed approximately $25.5 million for both of these items on a Virginia jurisdictional basis.

[15] Virginia Power's "Phase II" filing, filed December 12, 2000, Volume 4 of 4, Appendix F (Unbundled Rate Schedules), pp. 2 and 3.

[16] § 56-582 D.

On page 41 of its Plan, the Company has also requested waivers of certain requirements within the Commission's functional separation rules. The waivers requested concern the following filings required by these rules: (i) jurisdictional breakdown of the cost of service studies, (ii) proposed systems of account for Dominion Generation, and (iii) estimates of costs to unbundle the Company.[17]

In a separate filing dated November 29, 2000, the Company furnished updated data for its proposed fuel factor methodology. The Company's December 12, 2000, filing included: (i) a cost of service study, (ii) unbundled rates, and (iii) proposed terms and conditions of service. The Company's December 12 filing also requested a waiver of the requirement that its cost of service study be subdivided by class costs for metering and billing.[18]

In conjunction with Virginia Power's proposed transfer of its generating assets and operations to Dominion Generation, Dominion Generation plans to own and operate the generating assets transferred to it by Virginia Power as an exempt wholesale generator, or EWG, not subject to regulation by the

[17] The Company provided no explanation in its application for the waiver request concerning the requirement (under the Commission's functional separation rules) that the Company file cost of service studies reflecting total company and total Virginia operations, and separating total Virginia operations into Virginia jurisdictional operations and Virginia non-jurisdictional operations (20 VAC 5-202-40 B 7). However, the Commission has been advised by the Commission Staff that the Company desires to furnish a cost of service study separating its operations into the following four categories corresponding to methodology it has employed in prior rate proceedings: Virginia jurisdictional, Virginia nonjurisdictional, FERC, and North Carolina. The other two waivers correspond to 20 VAC 5-202 40 B 6 e (proposed system of accounts for any affected, affiliated generation company), and 20 VAC 5-202-40 (estimates of the cost of functional separation, and an explanation of how these costs will be shared by proposed functionally separate entities). With respect to the waiver requested concerning Dominion Generation's system of accounts, the Company simply states that the same has not yet been developed (Company's November 1, 2000, filing, pg. 41).

[18] The waiver is requested in the Company's December 12, 2000, filing in Volume 1, pg. 4 thereof. The requirement to subdivide class costs for metering and billing services within the Company's cost of service study is established under 20 VAC 5-202-40 B 7 c of the Commission's functional separation rules. The Company proposes that this information not be required until the Virginia General Assembly acts on the Commission's draft plan for competitive metering and billing services. That draft plan was presented to the General Assembly's Legislative Transition Task Force in December 2000; the plan's principal recommendations for competitive billing were incorporated into Senate Bill 1420("SB 12420") passed by the 2001 Session of the General Assembly. SB 1420 also establishes competitive metering as part of Virginia's restructuring implementation—an element not present in the Commission's Plan which

Commission. An EWG's generation assets are denominated "eligible facilities." According to the Company, the federal Public Utility Holding Company Act of 1935 ("PUHCA") requires under 15 U.S.C.A. § 79z-5a(c) (1997) thereof, that as a prerequisite to the treatment of Virginia Power's generating facilities as "eligible facilities" utilized by an EWG in the wholesale market, and no longer subject to regulation by the Virginia State Corporation Commission, this Commission must determine that such treatment (i) will benefit consumers, (ii) is in the public interest, and (iii) does not violate State law.[19] Virginia Power has requested that this Commission make such findings in conjunction with its review of this Plan.

The Company is also asking for additional Commission findings under PUHCA. These findings relate to the proposed wholesale purchased power agreement between Dominion Virginia Power and Dominion Generation (described above and referred to as the "PPA"). As noted by the Company, since Dominion Generation will be an EWG affiliate of Dominion Virginia Power, federal law prohibits Dominion Virginia Power and Dominion Generation from entering into a wholesale power purchase agreement unless this Commission finds that it has sufficient regulatory authority, resources, and access to books and records of Dominion Virginia Power and any relevant associate, affiliate, or subsidiary

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had proposed that competitive metering receive further study and consideration. Thus, the Virginia General Assembly has acted on these issues.

[19] As noted by the Company on pp. 4 and 5 of its Plan, an EWG must be directly (or indirectly through an affiliate as defined in 15 U.S.C.A. § 79b(a)(11)(B) (1997)) and exclusively engaged in the business of owning and/or operating "eligible facilities" and selling electric energy at wholesale. 15 U.S.C.A. § 79z-5a (a)(1). An "eligible facility" is a facility used exclusively for the generation of electricity for sale at wholesale or used for the generation of electricity and leased to one or more public utility companies. 15 U.S.C.A. § 79z-5a(a)(2) (1997).

Moreover, because the generating facilities to be transferred to Dominion Generation were in the rate base of Virginia Power on the date that section 32 of PUHCA, 15 U.S.C.A. § 79z-5a (1997) was originally enacted (October 24, 1992), these generating facilities cannot be considered "eligible facilities" for EWG purposes unless the Virginia State Corporation Commission and the North Carolina Utilities Commission each make a specific determination that allowing the facilities to be deemed eligible facilities (1) will benefit consumers, (2) is in the public interest, and (3) does not violate State law. 15 U.S.C.A. § 79z-5a(c) (1997).

company to exercise its duties under 15 U.S.C.A. § 79z-5a(k)(2) (1997). Those duties, imposed upon the Commission by federal law, require the Commission to determine that the proposed transaction: (i) will benefit consumers; (ii) does not violate any state law (including where applicable, least cost planning); (iii) would not provide Dominion Generation any unfair competitive advantage by virtue of its affiliation or association with Dominion Virginia Power; and (iv) is in the public interest.[20] Virginia Power has asked in its Plan that the Commission make such findings.

The Company states that the proposed legal separation of the generation operations from the transmission and distribution operations complies with the Act, and specifically § 56-590 of the Code of Virginia. The accounts and employees of the two operations will be separated.[21] Virginia Power further asserts that its Plan (i) provides safeguards against cross-subsidies between regulated and unregulated entities,[22] and (ii) ensures that its generation assets or their equivalent remain available for electric service during the capped rate period and any period during which Dominion Virginia Power serves as a default supplier. Finally, Virginia Power asserts that the proposed functional separation of its regulated and unregulated business activities, its proposed internal controls, and the terms and conditions of the PPA will prevent anti-competitive behavior or self-dealing and discriminatory behavior toward non-affiliated units.

Virginia Power further declares that its Plan will not jeopardize or impair the safety or reliability of the Company's transmission and distribution systems and service. Likewise, the Company declares

[20] 15 U.S.C.A. § 79z-5a(k)(2)(A) (1997).

[21] The account balance allocation methodology proposed to accomplish this is described on pp. 15-20 of the Plan; the proposed unbundled balance sheet is included in Schedule C.

[22] The proposed internal controls for avoiding cross-subsidies and anti-competitive behavior are set forth in the Plan's Appendix B.

that the Plan will neither jeopardize nor impair the safety or reliability of the generation system and service to customers. Additionally, the Company states that the generation, transmission, and distribution assets will continue to be operated by the same personnel and according to the same standards that in the past have allowed Virginia Power to achieve high levels of safety and reliability.

Virginia Power states that its plan to separate its generation assets and operations from its transmission and distribution assets and operations is consistent with the intent of the Virginia General Assembly as reflected in the Act and ensures that the Company's high standards for reliable electric service will be maintained. Moreover, the Company states that "Virginia Power's provision of adequate, reliable and safe service, at just and reasonable rates, will not be impaired or jeopardized by the Commission's approval of the Plan."[23] Thus, the Company requests approval of the Plan, including: (i) the proposed transfer of its generation assets and operations; (ii) the Nuclear Decommissioning Funding Plan; (iii) the fuel cost recovery mechanism; (iv) the proposed form of the PPA; (v) findings required by the Public Utility Holding Company Act, 15 U.S.C.A. §§ 79 to 79z-6 (1997); and (vi) any other approvals required under §§ 56-76 to 56-87, 56-88 to 56-92, 56-582 E, and 56-590 B of the Code of Virginia.

Finally, we note that Virginia Power filed a motion with the Commission on November 21, 2000, seeking a protective order concerning certain information it will disclose in supplemental filings that it deems "confidential" or "competitively sensitive." Specifically, the information in question concerns (i) information required to determine the Company's annual billing factors and price indices for

[23] Plan, pg. 40.

purposes of fuel cost recovery under the fuel factor methodology proposed in the Plan, (ii) information contained in its cost of service studies,

unbundled tariffs, rates, and terms and conditions of service included in its December 12, 2000, filing, and (iii) information to be furnished in this matter in response to data requests from the Commission's Staff, the Office of the Attorney General, and other parties participating in this proceeding. The Company asserts that unlimited public disclosure of this information will place Virginia Power and its affiliates at a competitive disadvantage relative to other competitors.

Consequently, the Company desires that access to information deemed competitively sensitive be restricted to Virginia Power, the Commission's Staff, the Attorney General, or other parties in this proceeding, together with their counsel, expert witnesses, and support personnel working on this matter. The Company further requests that any such persons execute a document described as an "Agreement to Adhere to Protective Order," a copy of which is annexed to the Company's motion. Such persons, however, are subject to further procedures and restrictions including restrictions concerning access to such information, the information's introduction at any hearing, and other such restrictions as are outlined in the Company's motion. Moreover, the Company states that it reserves the right to withhold information where it considers the information to be so commercially sensitive that it should not be disclosed to a particular requestor.

NOW THE COMMISSION, upon consideration of this matter, is of the opinion that notice should be given of Virginia Power's filing in this matter, that interested persons should have the opportunity to comment or participate as protestants, and that a hearing should be scheduled in this proceeding.

The Commission has also reviewed the Company's requests in its initial application for waivers of the following filings required by the Commission's functional separation rules: (i) jurisdictional breakdown of the cost of service studies, (ii) proposed systems of account for Dominion Generation,

and (iii) estimates of costs to unbundle the company. We also note the Company's request in its December 12, 2000, filing for waivers within its cost of service study of the subdivision of metering and billing costs by class. We will grant, in part, Virginia Power's waiver requests, as follows.

We will grant the Company's request for waivers pertaining to jurisdictional breakdowns of its cost of service study. Accordingly, the Company may determine functionally unbundled rates by class based on a jurisdictional cost of service study prepared consistent with the methodology employed by the Company in prior rate proceedings, i.e., utilizing four categories: Virginia jurisdictional, Virginia nonjurisdictional, FERC, and North Carolina.

The other two waiver requests concerning (i) proposed system of accounts for Dominion Generation, and (ii) an estimate of the cost to functionally unbundle the Company will be denied. Accordingly, such information shall be provided once it is available, but not later than May 1, 2001. We believe this information is necessary to the Commission in obtaining a complete understanding of the Company's proposal.

With respect to information concerning Dominion Generation's system of accounts, we note that the Company's Plan has various proposals to transfer costs between Dominion Generation and Dominion Virginia Power (including the PPA, nuclear decommissioning funding, wires charges, and debt payment responsibility). An understanding of the transaction flow to both companies' books of account is essential to the Commission's complete analysis and understanding of the proposals.

We further find that provision of an estimate of the cost to accomplish the Company's unbundling plan is a reasonable requirement. The Commission may want to require specific accounting treatment for this cost. We emphasize that what is called for here is, in fact, an estimate and that we understand and anticipate that the actual amount will vary based on any number of factors. However,

the Company should provide an estimate of the costs of the proposals submitted in its Plan. Should the Plan change significantly, updated estimates may be required.

With respect to the Company's request for waivers within its cost of service study of the subdivision of metering and billing costs by class, that request is denied. As required by the Restructuring Act, the Commission presented its plan for competitive metering and billing to the Virginia General Assembly's Legislative Transition Task Force ("LTTF") in December 2000. As part of its 2000 proceedings, the LTTF recommended an omnibus bill to the 2001 Session of the General Assembly, making several significant changes to the Act. This bill, introduced in the 2001 Session as Senate Bill 1420 ("SB 1420"), includes virtually all of the Commission's recommendation for competitive billing, i.e., competitive supplier direct and consolidated billing.[24] SB 1420 also authorizes competitive metering services to begin as early as 2002.[25] This bill has been passed by the 2001 Session of the General Assembly, and thus it is expected that competitive metering and billing will be part of the Restructuring Act as of July 1, 2001. Consequently, class costs for metering and billing by this and other companies will be essential to the Commission's implementation of competitive billing and metering services. Accordingly, we direct the Company to promptly provide that information on or before May 1, 2001, such information to be consistent with then existing statutory requirements, including any amendments to the Restructuring Act concerning competitive metering or billing enacted by the 2001 Session of the Virginia General Assembly.

[24]Under the bill, competitive service provider ("CSP") direct billing would be authorized in 2002, with CSP consolidated billing (billing for both generation and distribution services) authorized to begin in 2003.

[25] SB 1420's provisions authorize competitive metering services as early as 2002 for large industrial customers and large commercial customers of investor-owned distributors, and for residential and small business customers of investor-owned distributors as early as 2003.

Finally, as part of the procedural schedule established herein, we will direct the Staff to convene a meeting or meetings among the Company, the Office of the Attorney General (should that office participate herein), all Protestants, and Staff for the purpose of identifying and discussing the issues raised by this application and exploring the possibility of narrowing the issues to be presented at hearing through settlement or stipulation. The Staff counsel assigned to this case will be directed to advise the Commission, by letter, of the results of these discussions. Accordingly,

IT IS ORDERED THAT:

(1) This matter is docketed and assigned Case No. PUE000584.

(2) A public hearing on this matter is hereby scheduled for October 10, 2001, commencing at 10:00 a.m. in the Commission's Second Floor courtroom, Tyler Building, 1300 East Main Street, Richmond Virginia.

(3) Virginia Power shall make its Plan available to the public, who may obtain a copy of this application by requesting it in writing from Virginia Power's Counsel, Edward L. Flippen, Esquire, McGuireWoods LLP at One James Center, 901 East Cary Street, Richmond, Virginia, or who may inspect the Plan, and all materials Virginia Power may subsequently file in this proceeding during regular business hours at Virginia Power's business office located at One James River Plaza, Richmond, Virginia.

(4) On or before May 1, 2001, the Company shall file (i) its prefiled testimony in support of its application herein, (ii) all information required to complete the application as directed herein, together with any amendments to the Plan necessitated by the 2001 General Assembly's passage of Senate Bill 1420, and (iii) all other information and data upon which the Company relies in support of its application herein.

(5) Any interested person desiring to participate as a protestant in this matter shall file their notice of protest on or before May 15, 2001, concurrently serving copies thereof on counsel for the Commission Staff, and counsel for the Company. An original and fifteen (15) copies of any such notice of protest shall be filed by May 15, 2001, with the Clerk of the Commission, P.O. Box 2118, Richmond, Virginia 23218, and shall refer to Case No. PUE000584.

(6) Staff shall convene a prehearing conference of the parties on or before June 22, 2001, and thereafter as the Staff and parties find desirable, to explore the possibility of narrowing the case through stipulation or settlement of particular issues.

(7) Staff counsel shall advise the Commission, by letter, of results of the prehearing conference(s) on or before July 31, 2001.

(8) On or before August 15, 2001, any interested person desiring to comment on the Company's Plan shall file an original and fifteen copies of any such comments with the Clerk of the Commission, P.O. Box 2118, Richmond, Virginia 23218, and shall refer therein to Case No. PUE000584. Such persons shall concurrently serve copies of any such comments on counsel for the Commission Staff, counsel for the Company, and upon any protestants herein.

(9) On or before August 24, 2001, protestants shall file an original and fifteen (15) copies of their protests and any prefiled testimony with the Clerk of the Commission and shall concurrently serve copies thereof on counsel for the Commission Staff, counsel for the Company, and on other protestants herein.

(10) The Commission Staff shall review the proposed Plan and, on or before September 7, 2001, shall file with the Clerk of the Commission an original and fifteen (15) copies of its prefiled

testimony concerning the same and shall concurrently serve a copy thereof on counsel for Virginia Power and any protestants.

(11) On or before September 17, 2001, Virginia Power shall file with the Clerk of the Commission an original and fifteen (15) copies of its rebuttal testimony and shall concurrently serve a copy thereof on counsel for the Commission Staff and any protestants.

(12) Virginia Power and any other parties shall respond to interrogatories and data requests within ten (10) days of service. Exceptions to any such interrogatories or data requests shall be filed within seven (7) days of service. Except as otherwise modified herein, discovery shall be in accordance with Part VI of the Commission's Rules of Practice and Procedure.

(13) Pursuant to Rule 7:1 of the Commission's Rules of Practice and Procedure, a hearing examiner is hereby appointed to adjudicate any disputes concerning interrogatories, data requests, or any other discovery requested or made in this proceeding. Any such adjudication shall be made expeditiously with due regard to the timetable for this proceeding established by this Order.

(14) The Commission's Staff, protestants, and other parties to this proceeding shall file responses, if any, to the Company's Motion for a Protective Order on or before March 15, 2001. Virginia Power may submit a reply thereto on or before April 2, 2001. Pending the Commission's determination of such motion, the Commission's Staff, together with any experts or consultants it may employ in conjunction with this matter, may review, on a confidential basis, any information previously or subsequently filed by the Company with the Clerk of the Commission in this matter and designated as "confidential" or "competitively sensitive."

(15) With respect to Virginia Power's requests within its application herein for waivers of certain provisions of the Commission's functional separation rules, the Commission hereby grants the

Company's request for a waiver pertaining to the jurisdictional breakdown of its cost of service studies. Accordingly, the Company may determine functionally unbundled rates by class based on a jurisdictional cost of service study prepared consistent with the methodology employed by the Company in prior rate proceedings, i.e., utilizing four categories: Virginia jurisdictional, Virginia nonjurisdictional, FERC, and North Carolina. However, the Company's requests for waivers concerning (i) the proposed system of accounts for Dominion Generation, (ii) estimates of costs to unbundle the company, and (iii) the subdivision of metering and billing costs by class are denied consistent with our findings and requirements concerning the same set forth above.

(16) On or before March 9, 2001, Virginia Power shall cause the following notice to be published as display advertising (not classified) in newspapers of general circulation in its Virginia service territories:

NOTICE TO THE PUBLIC OF AN APPLICATION
BY VIRGINIA ELECTRIC AND POWER COMPANY
FOR APPROVAL OF A PLAN TO SEPARATE ITS
GENERATION, TRANSMISSION AND DISTRIBUTION
ASSETS AND ACTIVITIES
CASE NO. PUE000584

On November 1, 2000, Virginia Electric and Power Company ("Virginia Power" or the "Company") filed an application with the Virginia State Corporation Commission ("the Commission"), pursuant to Virginia Code § 56-590 B of the Virginia Electric Utility Restructuring Act ("Restructuring Act" or "the Act"), for approval of a plan for the functional separation of its generation, transmission and distribution assets, and activities (the "Plan"). Under the Plan, the Company proposes to structurally separate its functions by transferring its $6.7 billion in generation assets to Dominion Generation Corporation ("Dominion Generation"), a company it has created or will create. Virginia Power proposes to distribute the stock of Dominion Generation to its parent company, Dominion Resources, Inc., ("Dominion Resources") in a tax-free spin-off.

The Company also proposes to transfer to Dominion Generation its rights and obligations under Virginia Power's non-utility generation contracts and other rights and obligations related to its generation operations. Virginia Power would retain its transmission and distribution assets and operations, doing business as "Dominion Virginia Power." Furthermore, following the transfer of Virginia Power's generation assets to Dominion Generation, all of Virginia Power's current outstanding long-term debt (approximately $3.8 billion), would nevertheless remain the obligation of Virginia Electric and Power Company, albeit operating under the trade name, Dominion Virginia Power. Virginia Power's existing payment obligations on this debt would be allocated between Dominion Virginia Power and Dominion Generation.

As proposed under its Plan, Dominion Virginia Power would no longer own any electric generation assets but would purchase all power used by its customers from Dominion Generation. Following the end of capped rates provided by the Restructuring Act, Virginia Power proposes that it purchase power for any default service customers it is required to serve thereafter, at rates no longer subject to regulation by the Commission.

According to the Company's Plan, Dominion Virginia Power will be part of Dominion Resources' delivery business, which includes electric transmission operations, customer service and metering, and gas and electric distribution operations in Virginia, North Carolina, Ohio, Pennsylvania, and West Virginia. Dominion Virginia Power would be designated an "incumbent electric utility" under the Act.

Essentially all of Virginia Power's assets are subject to the lien of its mortgage bond indenture, and the Company has covenant obligations in that indenture and other of its financings. In order to reallocate debt and to transfer the generation business out of Virginia Power in compliance with these obligations, the Company proposes to undertake debt-restructuring actions. These actions, according to the Company, may include market-based purchases of debt obligations, defeasance, alternative security, and trustee or bondholder consents. If these restructuring approaches do not succeed, the Company may propose a different approach: transferring Virginia Power's transmission and distribution assets to a new entity, while Virginia Power would retain the generation assets. In that case, the Company would propose to shift "incumbent electric utility" status under the Restructuring Act from Virginia Power to that new entity.

The Company's Plan further proposes that following its functional separation, Dominion Virginia Power will collect nuclear decommissioning funding costs and wires charges from retail customers on behalf of Dominion Generation. Dominion Virginia Power would also be responsible for providing retail customers with capped rate service until July 1, 2007 (or until any earlier date that capped rates are terminated pursuant to the Act); it also will provide default service under the Act, if it is designated a default service provider.

The Company's proposed Plan further provides that Dominion Generation will supply Dominion Virginia Power with electric power during and after the capped rate period pursuant to a power purchase agreement ("PPA") between Dominion Virginia Power and Dominion Generation. Upon expiration or termination of the capped rate period, the Company proposes that any power purchases by Dominion Virginia Power from Dominion Generation under the PPA will be at prevailing market prices (although Senate Bill 1420, passed by the 2001 Virginia General Assembly would require that generation default service provided by incumbent electric utilities after July 1, 2007, be priced with reference to competitive regional electricity markets). According to the Company, the PPA, as described above, will ensure the availability of generation assets or their equivalent for services to Dominion Virginia Power's retail customers.

For use on and after January 1, 2002, Virginia Power's functional separation Plan proposes an index-based fuel cost recovery mechanism based on forecasted generation by fuel types and projected fuel price indices. The new fuel factor proposal provides for a true-up, or reconciliation of forecasted fuel prices with historical prices. According to the proposed Plan, any under-recovery or over-recovery balance will be added to or subtracted from the next fuel period until the fuel factor terminates at the end of capped rate service.

As required by the Commission's functional separation rules, the Company proposes in its Plan to unbundle its rates to reflect the separation and deregulation of its generation business. The Company supplemented its application on December 12, 2000, with the filing of its proposed unbundled tariffs, rates, and terms and conditions of service in what it describes as "Phase II" of its filing. The unbundled rates will be based on the functionally unbundled cost of service study for the twelve-month period ending December 31, 1999. Significantly, as part of that filing, Virginia Power has proposed a "minimum stay"

period of twelve months for those customers who return to the Company for capped rate generation service following such customers' switching to competitive suppliers. That is, a customer who takes competitive service from an alternative supplier would have to subscribe to Dominion Virginia Power service for at least 12 consecutive months if the customer desired to return to Dominion Virginia Power service. According to the Company, this requirement will help prevent "seasonal gaming" by customers who might otherwise choose to purchase generation services from a competitive supplier during low-cost months (i.e., non-summer), returning to the utility for capped rate service during the high cost months (i.e., summer).

Virginia Power has also requested Commission findings relative to approvals it seeks under federal law concerning the proposed transfer of its generating assets and operations to Dominion Generation, an entity that will be engaged in the sale of electricity within the wholesale market and not subject to regulation by the Virginia State Corporation Commission. Specifically, under the federal Public Utility Holding Company Act of 1935 ("PUHCA"), the Commission must find that the proposed generation asset and operations transfers (i) will benefit consumers, (ii) are in the public interest, and (iii) do not violate State law.

The Company is also asking for an additional Commission finding under PUHCA concerning the proposed purchase power agreement between Dominion Virginia Power and Dominion Generation. Under PUHCA provisions, Dominion Virginia Power and Dominion Generation cannot enter into a wholesale power purchase agreement unless this Commission makes a determination that the Commission has sufficient regulatory authority, resources, and access to books and records of Dominion Virginia Power and any relevant associate, affiliate, or subsidiary company to exercise its duties under 15 U.S.C.A. § 79z-5a(k)(2) (1997). Those duties, imposed upon the Commission by federal law, require the Commission to determine that the proposed transaction (i) will benefit consumers, (ii) does not violate any state law (including where applicable, least cost planning), (iii) would not provide Dominion Generation any unfair competitive advantage by virtue of its affiliation or association with Dominion Virginia Power, and (iv) is in the public interest. Virginia Power asks in its Plan that the Commission make such a finding.

Virginia Power declares that its Plan to separate its generation assets and operations from its transmission and distribution assets and

operations is consistent with the intent of the Virginia General Assembly as reflected in the Act and ensures that the Company's high standards for reliable electric service will be maintained. Thus, as set forth above, the Company requests approval of the Plan, including approval of the following: (i) transfer of the generation assets and operations; (ii) the Nuclear Decommissioning Funding Plan; (iii) the fuel costs recovery mechanism; (iv) the form of the PPA, including the necessary findings required by the Public Utility Holding Company Act; and (v) any other approvals necessary under §§ 56-76 to -87, 56-88 to -92, 56-582(E), and 56-590(B) of the Code of Virginia.

A public hearing on this matter before the Commission has been scheduled for October 10, 2001, to commence at 10:00 a.m. in the Commission's Second Floor Courtroom, Tyler Building, 1300 East Main Street, Richmond, Virginia for the purpose of receiving evidence related to the Company's functional separation Plan. Any person desiring to make a statement at the hearing should appear in the Commission's courtroom at 9:45 a.m. on the hearing date and identify himself or herself to the bailiff as a public witness. Individuals with disabilities who require an accommodation to participate in the hearing should contact the Commission at 1-800-552-7945 (voice), or 1-804-371-9206) (TDD) at least seven days before the scheduled hearing date.

A copy of Virginia Power's functional separation plan is available for public inspection between the hours of 8:15 a.m. and 5:00 p.m. in the Commission's Document Control Center located on the first floor of the Tyler Building, 1300 East Main Street, Richmond, Virginia, and at Virginia Power's business office located at One James River Plaza, Richmond, Virginia, during its regular business hours. The application may also be requested in writing from Virginia Power's counsel, Edward L. Flippen, Esquire, McGuireWoods LLP at One James Center, 901 East Cary Street, Richmond, Virginia 23219-4030.

The Commission encourages the participation of the public in this important proceeding. Any interested person desiring to file a notice of protest and protest concerning the Company's Plan shall file (i) any such notice of protest by May 15, 2001, and (ii) any protest and any prefiled testimony on or before August 24, 2001. Additionally, any person desiring to file comments concerning the Company's proposed Plan shall file comments thereon on or before August 15, 2001.

An original and fifteen (15) copies of comments or of any notice of protest and protest, prefiled testimony, or other written communications concerning Virginia Power's functional separation application shall be filed with the Clerk of the Commission, P.O. Box 2118, Richmond, Virginia 23218, referring to Case No. PUE000584, and shall also be served on Virginia Power's counsel at the address noted above.

Interested persons may obtain a copy of the Commission's Order for Notice and Comment, establishing the proceeding in this matter and setting forth the complete procedural schedule applicable thereto, from the Commission's web site, http://www.state.va.us/scc/caseinfo/orders.htm, or by directing a written request for a copy of the same to Joel H. Peck, Clerk of the Commission, at P.O. Box 2118, Richmond, Virginia 23218, referring to Case No. PUE000584.

VIRGINIA ELECTRIC AND POWER COMPANY

(17) On or before March 9, 2001, Virginia Power shall serve a copy of this Order upon governmental entities within its service territories as follows: (i) upon the Chairman of the Board of Supervisors of any county, (ii) upon the mayor or manager of any county or city, or (iii) upon officials comparable to the foregoing within counties, cities, or towns having alternate forms of governments. Service shall be made by first-class mail, or by delivery to the customary place of business or the residence of the person served.

(18) On or before April 2, 2001, Virginia Power shall file with the Clerk of the Commission proof of the notice and service required by ordering paragraphs (16) and (17).

(19) This matter is continued for further orders of the Commission.